

ISSUE SUMMARY:

Indiana had an outstanding Trust Fund loan balance on November 10, 2010, thus, employers' FUTA tax credits were first reduced by 0.3% for that year, payable in January 2011, reduced again for 2011 by an additional 0.3% (total of 0.6%), payable in January 2012 and reduced a third time for 2012 by an additional 0.3% (total of 0.9%) payable in January 2013. This reduction is referred to as the basic credit reduction. For each year that Indiana has an outstanding loan balance past the second year, the basic credit reduction increases by 0.3% points.

BACKGROUND:

In addition to State UI taxes (SUTA), each employer is required to pay a federal unemployment tax (FUTA). However, employers who pay their SUTA timely and in full receive a 5.4% FUTA credit IF their state is not a credit reduction state. FUTA taxes are calculated in the first quarter for the prior taxable year. Previously, the FUTA tax rate was set at 6.2% of the first \$7,000 in wages paid to each employee. **As of July 1, 2011, the FUTA tax rate is 6.0%**, but employers paying their SUTA timely and in full still receive a 5.4% credit, unless their state is a credit reduction state.

Indiana is currently a Credit Reduction State. This is because Indiana began borrowing from the federal government in November 2008 to pay unemployment insurance claims and still has an outstanding loan balance. If a state has an outstanding loan balance on January 1st of two consecutive years, its employers' FUTA credits will be reduced unless the balance is fully repaid by November 10th of the second year. The FUTA credit reduction resulted in an additional \$21 per employee ($\$7,000 \times 0.3\% = \21) for 2010 (payable 2011), which reduced the FUTA credit to 5.1%. In 2011 (payable 2012), Indiana employers paid an additional \$42 per employee ($\$7,000 \times 0.6\% = \42), which reduced the FUTA credit to 4.8%. In 2012 (payable 2013), Indiana employers are paying an additional \$63 per employee ($\$7,000 \times 0.9\% = \63)

AVOIDING FUTA INCREASES:

- Can future years of FUTA credit reductions be avoided or capped? *Yes, following federal regulation guidance, **DWD projects capping further credit reductions at 2014 rates (payable 2015)** - if no actions are taken that would decrease the net solvency of the fund before then.*

**This is made possible by passage of HEA 1450 in 2011, the Unemployment Insurance Trust Fund Reform bill that made changes to benefit calculations and employer premiums to bring solvency to Indiana's Trust Fund.*

FUTA CREDIT REDUCTION SCHEDULE:

Years after 1 st Loan	Basic Credit Reduction	Additional Credit Reduction	Total FUTA Rate	Add'l Tax Per Employee
2009	0.0%	0.0%	0.80%	
2010	0.3%	0.0%	1.10%	\$21
2011	0.6%	0.0%	1.40% thru 6/30/11 1.20% after 7/1/11	\$42
2012	0.9%	0.0%	1.50%	\$63
2013	1.2%	0.0%	1.80%	\$84
2014	1.5%	0.0%	2.10%	\$105

TALKING POINTS:

1. Michigan was the first state to have FUTA tax credit reductions imposed, with first payments due January 31, 2010. Indiana and South Carolina were the next to follow in January 2011. 22 states followed suit in January of 2012.
2. As a result of House Enrolled Act 1450 (2011), Indiana offset the increases in FUTA for employers by mandating the state unemployment insurance premiums remain at Schedule E until the year 2020 (artificially lowering them during a time of recession recovery), while at the same time, diversifying the spread between rates. The result in 2011 was that half of Hoosier employers saw a decrease in premiums, while the other half, who had a history of using the trust fund, paid more. Additionally, many unemployment benefit eligibility loopholes were closed and a more fair calculation for weekly benefits was implemented.

States with 2013 Federal Unemployment Tax Act (FUTA) Credit Reductions

Employers in the following states will be subject to a reduction in FUTA credit on their IRS Form 940 for 2013:

State	Credit Reduction
Arkansas	0.9%
California	0.9%
Connecticut	0.9%
Delaware	0.6%
Georgia	0.9%
Indiana	1.2%
Kentucky	0.9%
Missouri	0.9%
New York	0.9%
North Carolina	0.9%
Ohio	0.9%
Rhode Island	0.9%
Virgin Islands	1.2%
Wisconsin	0.9%

o These states had Title XII advance balances on January 1 of at least two consecutive years and on November 10, 2013, and did not qualify for credit reduction avoidance.

If there are any questions, please contact Rob Pavosevich at 202-693-2935 or pavosevich.robert@dol.gov

Source: U.S. Department of Labor: <http://www.workforcesecurity.doleta.gov/unemploy/finance.asp>